



**DEPARTMENT OF HEALTH & HUMAN SERVICES  
CENTERS FOR MEDICARE & MEDICAID SERVICES  
REGION IX**

75 Hawthorne Street  
Suite 408  
San Francisco, CA 94105

**JUN 16 2005**

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Anthony D. Rodgers, Director  
Arizona Health Care Cost Containment System  
801 E. Jefferson  
Phoenix, AZ 85034

Dear Mr. Rodgers:

Enclosed is an approved copy of Arizona State plan amendment (SPA) 04-003, regarding reimbursement for outpatient hospital services. I am approving this SPA with the requested effective date of July 1, 2005

If you have any questions, please have your staff contact Ronald Reepen at (415) 744-3601.

Sincerely,

Linda Minamoto  
Associate Regional Administrator  
Division of Medicaid & Children's Health

Enclosure

cc:

Joan Peterson, CMS, CMSO, FCHPG  
Cynthia Potter, CMS, CMSO, PCPG (two copies)

<b>TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL</b>		1. TRANSMITTAL NUMBER: 04-003	2. STATE Arizona
<b>FOR: CENTERS FOR MEDICARE AND MEDICAID SERVICES</b>		3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)	
TO: REGIONAL ADMINISTRATOR CENTERS FOR MEDICARE AND MEDICAID SERVICES DEPARTMENT OF HEALTH AND HUMAN SERVICES		4. PROPOSED EFFECTIVE DATE July 1, 2005	
5. TYPE OF PLAN MATERIAL ( <i>Check One</i> ):  <input type="checkbox"/> NEW STATE PLAN <input type="checkbox"/> AMENDMENT TO BE CONSIDERED AS NEW PLAN <input checked="" type="checkbox"/> AMENDMENT COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT ( <i>Separate Transmittal for each amendment</i> )			
6. FEDERAL STATUTE/REGULATION CITATION: 1902(a)(13)(E)		7. FEDERAL BUDGET IMPACT: a. FFY 2004-2005                      \$0 b. FFY 2005-2006                      \$0	
8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:  Attachment 4.19-B., pages 1 and 2		9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT ( <i>If Applicable</i> ):  Attachment 4.19-B., pages 1 and 2	
10. SUBJECT OF AMENDMENT: New outpatient fee schedule methodology.			
11. GOVERNOR'S REVIEW ( <i>Check One</i> ): <input type="checkbox"/> GOVERNOR'S OFFICE REPORTED NO COMMENT <input checked="" type="checkbox"/> OTHER, AS SPECIFIED: <input type="checkbox"/> COMMENTS OF GOVERNOR'S OFFICE ENCLOSED <input type="checkbox"/> NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL			
12. SIGNATURE OF STATE AGENCY OFFICIAL:		16. RETURN TO:	
13. TYPED NAME: Lynn Dunton			
14. TITLE: Assistant Director			
15. DATE SUBMITTED: April 29, 2004			
<b>FOR REGIONAL OFFICE USE ONLY</b>			
17. DATE RECEIVED: April 29, 2004		18. DATE APPROVED: <i>June 16, 2005</i>	
PLAN APPROVED – ONE COPY ATTACHED			
19. EFFECTIVE DATE OF APPROVED MATERIAL: July 1, 2005		20. SIGNATURE OF REGIONAL OFFICIAL: <i>[Signature]</i>	
21. TYPED NAME: Linda Minamoto		22. TITLE: Associate Regional Administrator Division of Medicaid & Children's Health	
23. REMARKS:			



State: ARIZONAMETHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES  
OTHER TYPES OF CARE

The following is a description of methods and standards for determining payment rates for specific services when payments are made directly to providers. Fee-for-services payments are made in accordance with the Arizona Health Care Cost Containment System Fee-For-Service Provider Manual and are subject to the limitations set forth in Attachment 3.1-A of the State Plan.

- **Outpatient Hospital Services**

From July 1, 2004 through June 30, 2005, AHCCCS shall reimburse a hospital by applying a hospital-specific outpatient cost-to-charge ratio to covered charges. If the hospital increases its charges for outpatient services filed with the Arizona Department of Health Services by more than 4.7 per cent for dates of service effective on or after July 7, 2004, the hospital-specific cost-to-charge ratio will be reduced by the amount that it exceeds 4.7 per cent. If charges exceed 4.7 per cent, the effective date of the increased charges will be the effective date of the adjusted AHCCCS cost-to-charge ratio.

Beginning with dates of service on and after July 1, 2005, AHCCCS shall reimburse hospitals for outpatient acute care hospital services from a prospective fee schedule, by procedure code, established by AHCCCS. Hospitals with similar characteristics (peer groups) such as: rural/CAH designation, bed size, special needs hospitals, public ownership, GME programs or Level I Trauma Centers, may be paid percentage adjustments above the fee schedule amount not to exceed the total payments received under comparable circumstances pursuant to Medicare upper limits. Rural hospitals, defined as hospitals in Arizona, but outside Maricopa and Pima counties, may be paid an adjustment above the fee schedule amount not to exceed the total payments received under comparable circumstances pursuant to Medicare upper limits.

Beginning with dates of service on and after July 1, 2005, services that do not have an established fee specified by the AHCCCS' outpatient hospital prospective fee schedule will be paid by multiplying the charges for the service by a statewide outpatient cost-to-charge ratio. The statewide outpatient cost-to-charge ratio is computed from hospitals' 2002 Medicare Cost Reports.

Hospitals shall not be reimbursed for emergency room treatment, observation hours, or other outpatient hospital services performed on an outpatient basis, if the member is admitted as an inpatient to the same hospital directly from the emergency room, observation or other outpatient department. The emergency room, observation, and other outpatient hospital services provided before the admission are included in the inpatient reimbursement.

Outpatient hospital payments shall be subject to the quick pay discounts and the slow pay penalties described in Attachment 4.19-A.

Rebase

AHCCCS will rebase the outpatient hospital fee schedule every five years.

State: ARIZONA

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES  
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Annual Update

Beginning October 1, 2006, AHCCCS will update the outpatient hospital fee schedule on an annual basis by either: multiplying the rates effective during the prior year by the Global Insights Prospective Hospital Market Basket Inflation Index or, in any given year the director may update the rates by calculating the dollar amount associated with the Global Insights inflationary increase and applying that dollar value to adjust rates at various levels.

New Hospitals

New hospitals, as defined in Attachment 4.19-A, will be assigned the statewide average outpatient hospital cost-to-charge ratio.

Out-of-State Hospitals

Out-of-state hospitals will be paid the lesser of: a negotiated discount rate, the Arizona outpatient hospital statewide average cost-to-charge ratio, or if reasonably and promptly available, the Medicaid rate in effect on the date of service in the state in which the hospital is located.

Specialty Rates

The Administration may negotiate special contracted rates for outpatient hospital services provided in specialty facilities.

- **Laboratory Services and X-Ray**

AHCCCS' capped fee amounts will not exceed the reimbursement amounts authorized for clinical laboratory services under Medicare as set forth in 42 CFR 447.342.

- **Pharmacy Services**

Reimbursement is subject to the limitations set forth in 42 CFR 447.331 through 447.332.

- **EPSDT Services Not Otherwise Covered in the State Plan**

AHCCCS reimburses for chiropractor services using a capped fee schedule. Payment is the lesser of the provider's charge for the service or the capped fee amount established by AHCCCS.

AHCCCS reimburses for personal care services using a capped fee schedule. Payment is based on the lesser of the provider's charge for the service or the capped fee schedule established by AHCCCS.

AHCCCS reimburses for hospice services, including routine home care, continuous home care, inpatient respite care and general inpatient care. Payment is based on the annual hospice rate established by the Centers for Medicare and Medicaid Service.